would be helpful to the Commission to require the RBOCs to value the assets that Section 276 requires to be reclassified at fair market value. From Peoples' perspective, the key to valuing a payphone route is to determine the value of contracts that the PSP has with location providers because Peoples is acquiring the assets on a going-concern basis.[53] The two components Peoples has examined are the length of the contract and the revenue streams that the contract can produce. Without this information, the payphone route cannot be evaluated properly. Indeed, only recently Peoples acquired a payphone route in which it valued the operator's location contracts and goodwill at approximately 70 percent the purchase price.

Likewise, if the RBOCs are permitted to reclassify their payphone assets without accounting for these contracts at their full market value, as suggested by the RBOC Coalition, two results will emerge. First, ratepayers will not receive the full benefit of removing the RBOCs' payphone assets from the rate base, because the rate base will still include the goodwill associated with the contracts transferred to the RBOC's competitive payphone operations. Second, non-LEC PSPs will be forced to compete with LEC PSPs that have asset bases that do not include valuable location contracts. As a result, LEC PSPs will have a smaller asset base on which to earn a return for their shareholder, thereby advantaging them in the marketplace. Both results are not in the public interest and can be avoided by requiring RBOC contracts to be valued at full market value when they are reclassified out of the rate base. Indeed, Ameritech has endorsed the approach urged by Peoples of valuing reclassified payphone assets at the "higher of estimated fair market value or net book value."[54]

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53 Attachment A describes Peoples' acquisition allocation model.

54 *See* Comments of Ameritech, filed July 1, 1996, at 13-14.

V. THE COMMISSION SHOULD REQUIRE FULL STRUCTURAL SEPARATION AS A TRANSITIONAL MEASURE IF RBOCS CAN CHOOSE THEIR PAYPHONES' PRIMARY INTEREXCHANGE CARRIER.

Peoples is a strong proponent of a fully competitive marketplace and believes that there should be parity among PSP competitors The question before the Commission, however, is how to achieve full competition without disadvantaging consumers and competitors during the transition. In light of this concern, Peoples supports the notion that the RBOCs should only be given the freedom to select the interLATA carrier serving their payphones if they offer payphone service from a structurally separated subsidiary This requirement, however, would only last until the Commission determines that the payphone industry has effective competition after the RBOCs have reclassified their payphone assets and removed all of the subsidies out of their basic service rates.

The notion of providing the RBOCs with relaxed regulation in return for operating from a separate subsidiary (*i.e.*, structural separation as detailed in *Computer II*) is consistent with the Commission's recent action permitting the RBOCs to offer out-of-region interLATA interexchange service as non-dominant carriers only if they offer these services from separate subsidiaries.[55] Indeed, the Commission concluded in that Order that the "separations requirements [did not] constitute burdensome regulation."[56] The same can be said about an RBOC's provision of payphone services from separate subsidiaries. It is reasonable to establish an interim safeguard to ensure that an RBOC's payphone operation are

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55 *See Bell Operating Company Provision of Out-of-Region Interstate, Interexchange Services*, Report and Order, CC Docket No 96-21 (released July 1, 1996) at ¶¶ 15-25.

56 *Id.* at ¶ 24.

free of subsidies and that the best way to ensure that this occurs is to establish a mechanism where such subsidies can easily be detected. Separate subsidiaries will accomplish this goal and they should be adopted by the Commission in return for permitting RBOCs to select the interLATA carrier serving their payphones.

VI. CONCLUSION

The record in this proceeding demonstrates that the Commission's compensation plan should at least ensure that PSPs can cover their costs of providing payphone service and to earn a reasonable profit in providing these services To this end, Peoples was the only party to submit new, detailed cost data supporting its position -- data that was not contradicted by any of the commenters.

To accomplish the Commission's mandate in the most efficient and equitable manner, the Commission should adopt a nationwide SAFE of at least \$0.45 per call. This rate should apply as a cap for local coin calls, as well as a set rate for non-coin calls, including all access code methodologies. For non-coin calls, the SAFE charge would be mandatory, paid by the carrier, and remitted to the PSP monthly. A rate of \$0.45 per call will provide PSPs with compensation to cover their payphone origination costs as well as provide PSPs with a reasonable rate of return on their payphone investment dedicated to the public use.

In the interim, the record demonstrates that the Commission has no reason not to immediately adopt flat-rate/increased carrier access code rates as an interim compensation plan to compensate PSPs for "the growing number of dial-around calls" that originate from their payphones and for which PSPs currently receive little or no compensation. The flat rate should be approximately \$40 per month, per payphone In addition, the Commission should increase the flat-rate amount used to compensate PSPs for carrier access code calls from $6.00 to $19.35 per payphone per month and increase the per call charge for AT&T and Sprint from $0.25 to $0.45 accordingly. Only with a comprehensive system for fair compensation will the competitive payphone industry truly thrive as envisioned by the 1996 Act.

Moreover. the Commission should require LECs to transfer their payphone assets, including any location contracts, out of the rate base on a fair market value basis. To do otherwise deprives ratepayers and regulated operations of the benefits that should flow from their historical support for public communications services. Second, it is vital that, if the Commission permits RBOCs and other LECs to select and contract for interLATA carriage from their payphones, that they operate their payphone services in a structurally separate subsidiary.

Respectively submitted,
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July 15, 1996

PTC MEMORANDUM

TO: FILES
FROM: DENISE GORDON
DATE: NOVEMBER 6, 1994
SUBJECT: ACQUISITION ALLOCATION MODEL

This memo serves to document a standard model to be used by PTC for allocation of the purchase price of acquisitions to assets, identifiable intangible assets and goodwill. This memo serves as general guidance and each acquisition must be analyzed individually and the allocations tailored to reflect the specific circumstances of each acquisition.

The majority of our acquisitions consist of the purchase of phones and related equipment and location contracts. The following memo highlights the allocation methodology to be used for these items. APB 16 - Business Combinations is referred to for guidance for these items, and any items not included in this memo.

PLANT AND EQUIPMENT

APB 16 states that the allocation of purchase price to plant and equipment to be used should be at current replacement costs for similar capacity unless the expected future use of the assets indicates a lower value to the acquirer. APB 16 further states that replacement cost may be determined directly if a used market exists for the assets acquired. Otherwise, the replacement cost should be approximated from replacement cost new less estimated accumulated depreciation

For most of our acquisitions, the types of phones being acquired can be identified and new replacement cost can be determined by our purchasing department. Based on the due diligence performed for the acquisition, the general condition of the phones can be assessed and the remaining expected lives can be estimated.

Based on this information obtained on the phones, an estimate of cost per phone is developed and this estimate is used to allocate the purchase price to the phones and related equipment.

LOCATION CONTRACTS

According the ABP 16, identifiable intangible fixed assets should be recorded at appraised value. Since obtaining appraisals for location contracts is not practical, PTC will determine the value of the location contracts by estimating the present value of the cash flows per phone associated with a location contract.

Cash flow per phone is determined by estimating the monthly revenue per phone based on the acquired company's historical operating results and adjusted for any factors that would affect the cash flow per phone once operated by PTC. From the estimated revenue per phone, phone charges, commissions, service and collections expenses, selling, general and administrative expenses and depreciation must be estimated based on PTC's historical operating results and deducted to arrive at net cash flow per phone.

This amount should then be present valued using a rate representing PTC's incremental borrowing rate and over estimated life of the location contracts. This estimate times the number of phones under location contracts would represent the allocation to location contracts.

GOODWILL

After the purchase price has been allocated to fixed assets and identifiable intangible assets, any purchase price remaining is then allocated to goodwill and amortized over a life not to exceed 40 years.

FILE: MISC\ALLOC

CERTIFICATE OF SERVICE

I Andrea Rainey hereby certify that I have this 15th day of July, 1996 caused copies of the foregoing "Reply Comments of Peoples Telephone Company, Inc." to be served by hand on the following:

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